



SJ Dunnigan Consulting

## State-Level Business Retention & Expansion Programs and Practices

Economic development has evolved and become much more holistic in its practices. Once primarily focused on place marketing for the purpose of lead generation and business attraction, it is clear that the tide is shifting to place more emphasis on and resources towards supporting and growing existing businesses. And it makes sense. In Virginia, for example, YourEconomy.org<sup>1</sup> reports that between 2004 and 2013, 57% of the net job growth that occurred was attributed to existing businesses. Only 4% of the 850,000 net new jobs created during that period was due to firm relocations. The remainder (36%) was explained by the net impact of new businesses being formed. If job creation is your economic development goal, it seems working with existing businesses holds great promise to achieve it.

Business and retention and expansion programs (BRE), a discipline area once relegated to regional or local economic development efforts, is front and center of many progressive state-level economic development plans. But from its early beginnings more than 30 years ago, some of the most exemplary programs reviewed today don't look much like traditional business retention and expansion programs at all.

After a recent review of state-level economic development strategies, it became clear that there is no single best approach supporting existing businesses. Each program exists within the framework of the state economy, the organizational structure of the implementing organization, the capabilities of state and local economic development partners, levels of investment, and coordination with business service providers.

A shift has occurred in the traditional practice of BRE. The traditional approach was focused on structured outreach (often on a randomized sample of existing businesses), business intelligence gathering via a face-to-face interview, a basic needs assessment or survey (usually designed to match companies to existing state resources), and a reporting and/or follow up method which promised to remove barriers to business growth.

A new approach has emerged. One that is much more strategic, proactive, purposeful, and comprehensive. The new emphasis is on the E in BRE and contemporary BRE programs are emerging as catalysts for business expansion, not just responsive partners in the game. In a review of 50 state-level economic development strategic plans and interviews with more than 20 state BRE program leads, this research identified the following critical success factors:

- 1) An integrated, state-wide strategic plan for economic development.
- 2) Clear, measurable outcomes and program objectives.
- 3) Dedicated leadership and outreach teams with appropriately matched resources.
- 4) Strategic research and sophisticated firm targeting methods.
- 5) Coordinated outreach and business intelligence gathering.
- 6) A comprehensive, value-added service delivery system.
- 7) Emphasis on capacity building and professional development for the economic development community.
- 8) A supporting technology platform or CRM

While this formula may sound simple, it isn't easy. None of the programs reviewed delivered on all 8 points and some excelled where others faltered. Clearly, the first element was critical in setting the stage for each program's success. In

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<sup>1</sup> Calculated using data obtained from YourEconomy.org. Virginia 2004-2013 Details for ALL JOBS. Accessed Nov 10, 2014.

each plan, BRE wasn't a secondary program area of emphasis. In each of the exemplary programs selected for review it was front and center, or given equal weight and resources as business attraction. It was also part of an integrated strategy, one that included workforce development and policy-making aimed at creating a better business climate.

Program objectives were clear and understood and designed to focus on measurable program activities and outcomes. Metrics were varied and ranged from company visits to service hours delivered to new contracts secured. Clearly, the customer in each strategy was defined as a growth-oriented business or a firm in industries of strategic interest. There was a great emphasis placed on transparency, reporting and measured return-on-investment.

A research project was recently completed that was designed to identify exemplary practices in state-supported or state-level business retention and expansion efforts. Through internet research, document review, and personal phone interviews, this project provided insight in the following topic areas:

**Form** – The organizational structure of the entity principally responsible for state-wide business retention and expansion initiatives, to include staffing levels, and age of the program.

**Function** – This references the overall program goals, defined program objectives, strategies for outreach and engagement, partner protocol, and most importantly, program outcomes.

**Funding** – The funding levels, sources, and other details related to how the program accesses and deploys resources.

**Professional Staff Development** – Identify key professional development and training being supported and advanced by exemplary business retention and retention teams.

**Partnerships** - Key focus on "first string" resource partners – aligned agency partners who make significant regular contributions that advance the work of retaining and expanding existing businesses.

After a review of economic development strategic plans and business retention and expansion activities in all 50 states, the following 13 states were selected for further review.

- Arkansas
- Georgia
- Iowa
- Louisiana
- Michigan
- Minnesota
- Nevada
- New Hampshire
- Pennsylvania
- South Carolina
- Tennessee
- Wisconsin
- Wyoming

In the reviewed state strategies, three state plans stood apart from the rest, in part for their recognition of the importance role existing businesses played in generating new economic activity. Arkansas, Louisiana, and Wisconsin emerged as examples of planning efforts which clearly built the business case, articulated a program with intention, and followed with clear, measurable outcomes. Wisconsin led the field with its transparency and emphasis on periodic reporting to stakeholders. When efforts and investment did not lead to the desired outcomes, they announced it and changed course. This type of dynamic planning-doing process sets them apart from their peers and represents the new dynamic in economic development – an agile organization with focus.

Flowing from the state-level strategy was a dedicated level of resources for BRE. There was clearly staff dedicated and resources deployed across the state, either geographically or with an industry sector-focus. For the programs organized into service areas, the emphasis was on relationships. Those regional project managers were relied upon to develop deep and meaningful relationships with local economic developers, regional resource partners, and most importantly businesses in the communities in which they were embedded. For sector-based strategies, states invested in industry-led consortiums and industry roundtables, with an eye towards directing policy and affecting resource allocation. In the best programs, I found evidence of other resources such as incentives, loan funds, workforce development funding, and related agency activities also aligned and directed to serve the needs of existing business under a single banner program of work.

In the studied programs where state staff was deployed regionally, project managers were responsible for between 100 and 150 company relationships. Each project manager was responsible for monitoring a portfolio of firm activity within the state and the most progressive did some form of active monitoring of firm activity that took place outside of the state as well, working to better understand their state's relative position. Interviewed state leadership had between 3 and 20 staff dedicated to serving the needs of existing business. In many cases this staff was augmented with workforce system outreach staff. Many of the deployed teams were embedded and housed by regional economic development groups or the community college system.

In the most progressive programs, research units did more than just create target lists based on basic criteria (size, sector, location). They developed predictive models and/or prioritization strategies that help states identify high-growth, high-growth potential, at-risk, or high-impact firms. This was particularly important in those states that dedicated staff with a sector-focus, rather than geographic emphasis. For those states, research played an important role in understanding emerging trends and new technology and designed sector advancement strategies to be supported by state policy, incentives, and tax structure. Michigan is one state who clearly has an eye on the future and has recently developed some sophisticated strategies to help refine its efforts to help in-state firms pivot and capitalize on new market opportunities. Further, its holistic approach to economic development, one that includes a talent strategy is one to watch.

In all, it was noted that broad sector- and firm-level business intelligence has the potential to transform business retention and expansion programs across the country. Many states are making strategic investments for themselves and their regional and local partners. Examples include university research partnerships and bulk purchasing of business databases and insightful labor market information.

Outreach approaches varied. In some states, state-level leads were responsible for key account management, with the support of local economic developers. In other cases, the state (or private-sector partners) actively incentivized local BRE program activities in the form of challenge grants for regions or fixed allocation models (PA and NV). Trust and transparency was key in maintaining a balance, in two of the selected programs for review, a protocol was developed via a contract-for-services model between the state economic development unit and a regional or local economic development office. In Minnesota, the state chamber and its network of regional and local chambers have taken a lead on business outreach, with close coordination with state, regional, and local economic development partners. South Carolina has taken an "aftercare" approach and manages a group of firms who have recently relocated to the state to ensure they make a successful transition. In tandem, a utility partner, the SC Power Team also conducts business outreach for key accounts in its portfolio of energy users.

The majority of the interviewed leadership utilized a technology platform or a web-based customer relationship management system to manage their company contacts and workflow. The most sophisticated were able to aggregate data and use that information to direct policy in addition to tracking firm interaction. This information allowed for benchmarking of regions, identification of critical business issues of state importance, and trend analysis. The BEST (Business Intelligence Strategic Trends) of Iowa program has a long history of statewide industry outreach and data analysis, supported by a public-private coalition of leadership that is responsible for driving impactful and responsive change at the state-level. In this program, supported by the Synchronist PRIME® system, the state's utility partners serve a vital role in championing outreach and service to existing businesses. Another example of smart technology was found in Wisconsin and its adaptation of Salesforce into its statewide In Force Network. Both serve as powerful examples of business intelligence gathering and information sharing platforms that have reach across agencies.

The biggest differentiator, based on this research, was the alignment of state resources to support businesses growth and expansion. The emphasis was less on business incentives and onto business accelerants. Highly evolved BRE programs recognize that the key to business growth is creating new innovations or growing demand for resident firms' products or services in the global market place (internationally and domestically). Further, they focus resources on high-growth potential firms in a systematic way. At the highest level, state BRE program resources work to extend and expand an existing business' internal resources. They help them to explore new markets, develop new technology, and stay competitive in a rapidly changing global economy. Wyoming and the Wyoming Business Council uses a streamlined

service delivery model to ensure that all of the state-level investment that would serve existing businesses are aligned. This has proven to increase efficiency and reduce redundancy.

Target industry advancement strategies and investment in private-sector led industry consortium initiatives was found in many of the best programs reviewed. Top states delivered an innovative array of business resources and they used technology and sophisticated business intelligence to do so. Michigan's Pure Michigan Business Connect was found to be an example of a program working hard to help its native businesses find new suppliers and customers. Pennsylvania was noted for its efforts to retain its manufacturing base through SEWN (Strategic Early Warning Network) and creatively deploys Workforce Investment Act funding to support layoff aversion activities.

In each of the exemplary programs, strategic partners in state-level BRE included the workforce system. Workforce was mentioned specifically as the key barrier to achieving the BRE program objectives in 11 of the 13 states interviewed. These two functions (economic and workforce development) were often closely aligned operationally. Remaining partnership tended to be dependent on the predominant industries in each state. For example, in manufacturing dominant states, the Manufacturing Extension Partnerships served a vital role. In Michigan, Economic Gardening has been embraced as a strategy to support second-stage firms with growth. Georgia is an example of a state that has grouped all programs whose outcomes were oriented to growing the state economy into a single operational unit. This includes commerce, international trade, tourism, arts, entertainment, workforce, and innovation.

Finally, the researched state-level BRE programs dedicated significant resources to professional development. All of the exemplary programs studied supported, directed, or delivered quality, relevant professional development to state and local partners. There was deep integration with state professional associations and an interest in building capacity at the regional and local level. In New Hampshire and Minnesota, the Cooperative Extension Office's play a vital role in training and support, especially for rural communities. In some cases, the state economic development entity invests financial resources in the form of scholarships or speaker fees. In others, they provided guidance on content and programming.

Leadership noted that the most effective BRE project managers have the ability to develop deep relationships with firms in their portfolio as well as the regional and local economic development community. This is so important in Tennessee that it requires its Jobs Base Camp managers to have frequent (and documented) interactions with local partners. High performers also have to have a good understanding of key business drivers and their state's relative advantages for the firms they served. The best also have exceptional project management skills and extensive sector knowledge, which enabled them to work to create new opportunities for their clients, not just respond when a project develops.

In close, this research has found that business retention and expansion programs are emerging with a new, more impactful model for state economic development agencies. They stand alongside business attraction, new business formation, and workforce development as a vital strategy for achieving economic development objectives. The most progressive states are refocusing resources on high-value activities that support targeted industry advancement strategies, mindful of the vital role regional economies and regional and local economic development partners play. States are embracing many of the same research and engagement approaches that have benefitted their attraction efforts and are bringing new, innovative resources to the table. The lines between traditional business attraction and business retention and expansion work are blurring as leadership recognizes that there are many paths available to achieve their economic development objectives.

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